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November 10, 1993

VIA HAND DELIVERY

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RE: **COALITION OF SMALL SYSTEM OPERATORS**
MM Docket No. 92-266

Dear Ms. O'Connell and Ms. Smith:

This letter will serve as a follow-up to our meeting on Monday, November 8, in which a number of members of the Coalition of Small System Operators discussed with you several issues relating to small systems. The Coalition thanks each of you for your time on Monday to discuss these issues.

We have outlined in summary form for you the issues we discussed and the position of the Coalition on these issues. All of these matters have been previously placed in the public record by the Coalition in its comments and filings.

As you will recall, the Coalition is made up of small cable operators who primarily provide cable service in rural, low-density areas. The Coalition

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consists of about 25 companies serving approximately 1.2 million cable television subscribers (about 2-3% of all cable subscribers in the United States) from 25% of all of the headends.

Our purpose is to help the Commission to find legitimate ways to provide the significant administrative relief to small system operators that Congress intended in the 1992 Act. Keep in mind that the relief we seek in general for small system operators will apply to no more than about 5% of cable subscribers nationwide. And the specific relief we seek for systems under 1,000 subscribers will apply to no more than about 3% of all cable subscribers. The overwhelming majority of cable subscribers in the United States will fall under the general provisions of the 1992 Act and the Commission's regulations. On the other hand, about 50 percent of all the headends in the country serve less than 1,000 subscribers. So reducing the regulatory burdens on small systems will save a large percentage of the administrative costs for the cable industry, local governments, and the FCC.

In summarizing the Coalition's points, we would emphasize that we are willing to work with the Commissioners' offices and the Commission staff to develop sound policies that will provide relief to small systems as intended by the 92 Act. Please do not hesitate to contact the members of the Coalition to use them as a resource in this process. The Coalition members understand small-system cable and can greatly help you in this regard. We understand that the Commission and its staff will have questions, as Bill Johnson, Larry Miller, and Hugh Boyle raised with us in our meeting with them on November 8. However, as we work through these issues with you, we are open to reasonable suggestions and compromise in an effort to come up with an end result that is fair to all parties.

Concerning our meeting on November 8, we discussed the following points:

Net Income Analysis. The Coalition proposes that the Commission adopt a net income test for small systems under 1,000 subscribers to significantly reduce the administrative burden on small systems that would otherwise have to engage in complicated benchmark analyses and to file costly and burdensome cost-of-service showings. Certain restrictions would apply under this test concerning major items like depreciation and amortization.

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Density Add-On. In conjunction with the net income analysis, we have proposed an add-on to the current benchmarks that would take into account the higher costs of small cable operators as a function of the low-density systems they operate. This proposal could apply to systems that are over 1,000 subscribers, but we believe would not affect more than 5% of all subscribers.

Accounting Issues. For purposes of rate regulation and cost-of-service showings, we have proposed that the Commission permit small system operators to make necessary showings under the benchmarks or cost of service on the basis of how the operator keeps its books, i.e., under either a system and/or consolidated basis. This would significantly reduce the administrative burden faced by small operators in having to comply with separate showings for numerous franchise communities. This would also eliminate the need for small operators to have to allocate their accounting records on a franchise basis, which is not how small system books are generally kept.

Definition of "Small Systems". We have proposed that the definition of "Small System" be tied specifically to franchise areas rather than the entire cable system stretching off of one head-end. As a result, we would define "Small Systems" as systems with under 1,000 subscribers in any particular franchise area. We encourage a definition based on franchise area rather than on the total system, because there is otherwise a disincentive for smaller operators to take advantage of new technologies and interconnection of systems if the result would throw the system over 1,000 and subject it to rate regulation. A definition based on system size rather than franchise size would prevent subscribers of small systems from receiving the new technologies that Congress and the FCC are encouraging.

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We hope this summary will help you in your consideration of these important issues. In addition, we hope you will feel free to contact the Coalition for assistance in any way that we can help.

Sincerely,



Gardner F. Gillespie

cc: John C. Hollar
MM Docket 92-266